Modification Report
Interruptible Transportation Charges
Modification Reference Number 0555
Version 1.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

It is proposed that the Network Code is amended to enable the charging arrangements proposed in Pricing Consultation PC74 to be implemented. That is that the level of transportation charges be reduced in respect of supply points that Transco nominates for interruption on more than 15 days in a particular year (measured from April to March). For each additional day of nominated interruption over 15 days, a transportation charge credit would be available, equivalent to 1/15 of the annual NTS exit capacity and LDZ capacity charges avoided as a result of the interrupted supply point having interruptible rather than firm transportation rights. Transco's existing right to interrupt a supply point for up to 45 days a year, or more for Transco Nominated Interruptible (TNI) supply points, would not be changed.

Details of the rules as proposed in the Draft Modification Report are provided below.

1. Introduction

1.1. Contracted interruptible exit capacity remains unchanged at 45-day standard. Sites nominated by Transco as TNI can be interrupted for a greater period.

1.2. All interruptible supply points continue to avoid firm exit capacity charges.

1.3. For each occurrence of nominated interruption beyond 15 days an additional credit will be offered. Transco conducts determination of cumulative occurrences of nominated interruption on a site-specific basis.

1.4. These business rules become effective on 1st October 2002 and refer to additional interruption credits for above 15-day interruption.

2. Calculation of Payment

2.1. The credit will be calculated in accordance with Transco's Pricing Methodology as established in PC74.

2.2. The charge quantity will be determined from the supply point registered interruptible exit capacity (SOQ) at the point of interruption multiplied by those qualifying occurrences of interruption in excess of 15 days as specified in sections 3 and 4 but subject to:

2.2.1. The charge quantity of any Partial interruptible site, including shared supply points, being limited to that quantity (kWh rate) of exit capacity tranche(s) that was actually requested by Transco for interruption.

2.2.2. Subject to 2.2.1, such shared supply point tranche(s) charge quantity will, where more than one interruptible shared user holds interruptible exit capacity at the shared supply point, be split by each shared user in ratio to such shared user's interruptible capacity holding as a percentage of the total aggregate shared supply point interruptible capacity.

2.2.3. The charge quantity of any IFA site being limited to that supply point registered interruptible exit capacity net of any firm exit capacity entitlement specified within each site IFA agreement.
2.2.4. The charge quantity of any interruptible NTS CSEP being limited to that quantity (kWh rate) of exit capacity that was actually requested on the day by Transco for interruption.
2.2.5. Subject to 2.2.4, such NTS CSEP charge quantity will, where more than one interruptible user is registered at the NTS CSEP, be split by each user in ratio to such user's interruptible initial (D-1) gas flow nomination as a percentage of the total aggregate interruptible initial (D-1) gas flow nomination for the NTS CSEP.
2.3. For the avoidance of doubt, a shared user's interruptible supply point capacity (SOQ), or such tranche under 2.2.1, will be used for charge quantity purposes, and not the shared supply point aggregate interruptible capacity (SSP SOQ).
2.4. User proposed ratios as alternatives to mechanisms described under 2.2.2 and 2.2.5 will not be allowed.
2.5. Supply point data at the point of interruption will be used for charge calculation purposes.
2.6. Payment constructed from charge quantities determined in accordance with this section 2 will not be the subject of later reconciliation should any component capacity subsequently change prospectively within the formula year.
2.7. The registered shipper at the point of interruption will be the qualifying shipper for receipt of any payment.

3. <u>Count of Interruptible Days</u>

3.1. A count of interruption occurrence will be maintained for each site within each formula year, with each day of interruption representing an increment of 1.
3.2. The count will include such occurrence of qualifying interruption as defined within section 4.
3.3. The count will start from zero on 1st April of each formula year beginning at April 2002
3.4. The count will end on 31st March of each formula year.
3.5. This count will be used solely for determining the level of credit due, if any, for each site where the frequency of nominated interruption exceeds 15 days within any formula year, monitoring of transportation contract interruption will be maintained separately for each gas year.

4. <u>Qualifying Interruption</u>

4.1. The count of qualifying interruptible days under section 3 will increment, but subject to 4.3, where curtailment of gas supply was due to:
4.1.1. Interruption arising from an NTS or LDZ constraint within Transco's transportation system.
4.1.2. Interruption arising for Test purposes as described within Network Code G 6.7.3 (ii)
4.2. The count of qualifying interruptible days under section 3 will not increment where curtailment of gas supply was due to:
4.2.1. Emergency interruption [emergency cessation of gas].
4.2.2. Any form of commercial interruption instigated by a shipper.
4.3. Transco's determination of a site for interruption will increment that sites count of interruptible days under section 3.

4.4. Where Transco has called interruption, a User can request that an alternative site(s) should be interrupted as described in G6.8.2 In such circumstances Transco will, for the purposes of section 3, maintain a count based on the site Transco originally nominated for interruption.
4.5. Failure to interrupt of the Transco proposed site, or shipper proposed alternative site(s), will result in a reduction by 1 (to a minimum of zero) of the site count of interruptible days determined under 4.3.

5. Unit Rate

5.1. The unit rate will be expressed in pence per kWh of peak day capacity and will be the rate as determined by Pricing Methodology PC74.
5.2. NTS and LDZ unit rates will be functions of those NTS and LDZ firm exit capacity rates valid at the point of interruption, and will be site-specific rates based on firm exit capacity avoided and applied to occurrences of qualifying interruption in excess of 15 days.
5.3. Payment constructed from unit rates determined in accordance with this section 5 will not be the subject of later reconciliation should firm NTS or LDZ exit capacity rates, or any peak capacity component contained within such rate calculation, subsequently change prospectively within the formula year.

6. Invoice

6.1. Payment of all credits accrued in a calendar month will be made within the following month.
6.2. Subject to 4.5, Transco will not issue a payment where it has reasonable grounds to believe that such payment is dependent upon the outcome of failure to interrupt investigation. Payment will be released as soon as practically possible should such failure to interrupt be disproved.

7. Information Provision

7.1. Transco will publish at a supply point level the count of interruptible days as specified within section 3 where that supply point count exceeds [12] days. The information in 7.1 will be published on the Transco web site updated on a weekly basis.

8. Transition Rules for formula year 1st April 2002 to 31st March 2003.

8.1. Implementation on 1st October 2002 will not prevent the count of qualifying interruptible days commencing on 1st April 2002.

9. Removal of TNI & NSL Commodity Discount

9.1. Payment in respect of interruption exceeding 15 days at a supply point level replaces the existing TNI commodity discount and any potential NSL commodity discount.
9.2. Remove Network Code and Transportation Statement reference to TNI commodity discount. (G 6.5.3 & G 6.5.4)
9.3. Remove Network Code and Transportation statement reference to NSL commodity discount. (G 6.7.14)

Following this consultation Transco wishes to amend the proposal with regard to the allocation of payments to Partial Shared Supply Meter Points (2.2.2 above). Such sites should be treated in the same manner as NTS Connected System Entry Points (2.2.5), that is payments are allocated to each relevant User on the basis of day ahead (D-1) nominations.

2. Transco's Opinion

Transco supports implementation of this proposal. Since the proposal was raised Ofgem have decided not to veto Pricing Consultation PC74. This proposal is intended to enable that Pricing Methodology to be applied such that Users may receive additional credits if interruption frequency at exit should increase beyond a 15 day threshold. The methodology for determination of the level of credits and the mode of application is broadly set out in Ofgems proposed GT licence amendments to Transco's Gas Transporter (GT) Licence which, if implemented, Ofgem propose should be effective from 1 April 2002.

3. Extent to which the proposed modification would better facilitate the relevant objectives

The proposal is intended to enable Network Code arrangements to be put in place that reflect Transco's understanding of the transitional, April 2002 to March 2004, interruption arrangements outlined by Ofgem in the recently published proposed modifications to Transco's GT Licence. If these GT Licence proposals are not implemented, or are amended in light of consultation, Transco would expect to reconsider this Modification Proposal in light of the changed circumstances.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

It is not anticipated that daily operation of the system will be impacted by this development.

b) development and capital cost and operating cost implications:

Development costs will be incurred as new software will have to be developed to record and calculate the credit due for each instance of interruption. In addition billing systems may need to be adapted to provide the functionality to deliver an additional ad-hoc charge item. Feasibility studies are underway to establish an efficient solution.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Any additional System Operator costs incurred as a result of implementing this Proposal would be accounted for under the proposed internal cost incentive scheme, as set out in Ofgem's final proposals for the System Operator incentives.

d) analysis of the consequences (if any) this proposal would have on price regulation:

This proposal is consistent with the Pricing Methodology PC74 that has been recently established to enable additional interruption credits to be offered to Users. Failure to implement the Proposal would prevent the calculation of and distribution of exit interruption credits through the Network Code.

Transco considers that the method of calculation of payment, charge rates and count of interruptible days described in the business rules forms an explanation of the Pricing Methodology and as such should be contained in Transco's Transportation statement.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

The implementation of new System Operator Incentives will increase contractual risks to Transco from releasing Interruptible Exit Capacity.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Systems developments will be required to implement this proposal. It is anticipated that these will be delivered at the beginning of December 2002. The new systems will conduct the calculation of credits and initiate the distribution of an ad-hoc invoice as appropriate. It is not anticipated that new computer systems will be required by Users because of the introduction of this proposal.

7. The implications of implementing the Modification Proposal for Users

Users will receive a credit if any interruptible exit site within its portfolio is interrupted on more than 15 days in a 12-month period from 1-April through to 31 March.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

No implications are anticipated.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

An amendment to Transco's GT licence has been proposed to introduce a 'transitional' Exit Capacity incentive that is intended to encourage Transco to Interrupt sites on fewer than 15 occasions in any formula year (April to March). Consequently this Proposal will enable credits to be distributed should interruption at a site exceed the 15 day threshold.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

'Fits' proposed GT licence amendments

Users can obtain additional credits if Transco interrupts a site on more than 15 occasions.

Disadvantages

TNI commodity charge discounts are discontinued.

Additional reporting requirements are required to monitor the extent of interruption.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco received a total of 12 representations in response to this Proposal:-

Powergen Uk Plc (POW)
SSE Energy Supply (SSE)
Shell Gas Direct (SGD)
Statoil (STA)
Agip Uk Ltd (AGI)
TotalFinaElf Gas and Power Limited (TFE)
British Gas Trading (BGT)
TXU Europe Energy Trading (TXU)
Innogy (INN)
London Electricity plc (LEG)
Association of Electricity Producers (AEP)
Corus UK Limited (Corus)

Of these, eight respondents (INN, POW, BGT, STA, TFE, SSE, AGI, Corus) express support for implementation of the proposal, two (TXU, AEP) do not support implementation, and two (LEG, SGD) provide comment.

<u>General</u>

Most respondents noted that this Modification Proposal 0555 is linked to PC74 - 'Interruptible Transportation Charge', noting that the Pricing Consultation had not been vetoed by Ofgem and that Modification Proposal 0555 is intended to implement the intent of PC74.

AEP observed that within the proposed GT licence incentives the proposed interim incentive arrangements for NTS exit capacity are not consistent with the proposed long term incentive arrangements, adding that site interruption in excess of 15 days will rebate a shipper more than the NTS and LDZ capacity charges foregone. TFE expressed concern with a (licence) process that necessitates interim measures, and in particular where there exists an absence of detail of the wider scope, justification, or (TFE argues) any measure of support for the proposed substantial reforms of the exit capacity regime. BGT argued that this interim arrangement will stimulate development of the long term regime.

AGI, INN and SGD believe the proposals are relatively simple and avoid complexity, which should enable the industry to focus on long term arrangements.

Both BGT and AGI welcomed the introduction of the above fifteen day interruption frequency payment mechanism as a means of differentiating interruptible sites in terms of the level of support these provide to Transco.

Retention by Transco of the present criteria for selection of interruptible sites was welcomed by INN and AEP as a means of avoiding undue discrimination between sites.

Transco Response

Transco welcomes the high level of support for this proposal and agrees with those respondents that observed that implementation of this proposal would enable the industry to focus on longer term development of NTS exit capacity arrangements.

TNI Commodity Discount

The removal of the TNI Commodity discount was not supported by four respondents (TXU, INN, STA, AEP). TXU commented that TNI sites would be expected to pay higher transportation charges in return for no discernible benefit, and that changes of this nature should not be piecemeal but considered as an element of a wider strategy. AEP and TXU considered that Transco would have a free option to interrupt TNI sites above 45 days, noting that this is not consistent with the principle of ensuring transportation services are cost reflective. STA is concerned that Transco could have an incentive to interrupt TNI sites for a period where no additional discount would be given.

Transco Response

The appropriateness of a TNI commodity discount was considered in PC74, this Modification Proposal is intended to give effect to the decision by Ofgem not to veto that Pricing Consultation. Where TNI sites are interrupted for a large number of days, beyond fifteen, in a year then a level of credit consistent with this will be paid by Transco.

Publication of Site Count

Support for publication of a cumulative count of interruption frequency at an aggregate level by LDZ and NTS was received from three respondents (STA, LEG, AEP), with LEG suggesting the count be published on an earlier ten day rather than twelve day trigger. Access to the site count for an incoming shipper was queried by TXU and BGT. Both STA and SGD enquired about the feasibility of information release on an Ad-Hoc basis as required by Users.

Transco Response
Transco had originally proposed a process that required information disclosure on a site specific basis, which it believed would have addressed the information needs of Users assuming responsibility for an interruptible site. Following development of the proposal, the workstream had agreed that publication of information would be best conducted at an aggregate level in order to maintain commercial confidentiality for both end users and Shippers. Transco therefore amended its proposal to reflect the workstream view that aggregate information only should be published. On a related information disclosure issue Transco will also amend its monthly report, 'Interruptible Portfolio by Shipper' which is issued to Users that hold interruptible capacity so that it identifies the count for each interruptible site in a User's portfolio.

Transco has proposed that a threshold (twelve days) be utilized to focus the related information provision on that which provides an indication of when sites may be approaching or exceeding the fifteen day measure. With experience of operating the new requirements Transco accepts that it would be possible to adjust the threshold if Users perceive that the present level is inappropriate.

Charge Quantity and Rate

TXU considered the business rules defined within the Modification Proposal could have a number of inconsistencies for which it sought clarification particularly with regard to the use of average or site specific measurement for setting compensatory amounts.

STA sought clarity of intent where the business rules described reconciliation, such that this should not prevent a Shipper from challenging erroneous data used within any calculation process.

Corus argue that a partial interruptible site should receive a payment for interruption based upon the total site interruptible exit capacity rather than being limited to the portion that was actually interrupted. Corus argues that the site day count makes no distinction between a full or part day interruption and that the calculation of charge quantity should be conducted on a consistent basis.

Transco Response

Transco can confirm that charge calculations will be conducted in accordance with its Pricing Methodology PC74, that is the calculation of charges foregone will be conducted on a site specific basis and the charge quantity will be based on the registered interruptible exit capacity (SOQ) at the point of interruption. Adjustment to the charge quantity will be made to reflect any Interruptible Supply Point Firm Allowance (IFA), Partial Interruption service, or NTS CSEP arrangements. The quantity will be applied to a charge rate that is based on Transco's assessment of 1/15th of the annual exit capacity charge for that site had it been a firm load.

Transco believes that an element of confusion has arisen from a view that the GT licence would require the level of credit to be set by actual gas flows on 15th January of each year. Transco has confirmed with Ofgem the validity of its interpretation that a site specific assessment of probable load size can be used for setting the levels of compensatory amounts. To this end a reconciliation between Transco's prediction of load size and actual load size on the 15th January is unnecessary. However, Statoil is correct that each User will retain the ability to challenge the basis of an invoice should it believe that erroneous data (such as an incorrect SOQ for determination of quantity) has been used.

Transco believes that the transitional exit incentive has been established to encourage Transco to minimize the incidence and extent of interruption and it therefore does not agree with Corus that payments should be made for partial loads that have not actually been interrupted.

Change of Registered User at a Site

Two respondents (SSE and STA) sought clarification of how a change of User at a site within a formula year (April to March) or within a period of interruption would affect the site count of interruption.

Transco Response

Transco will maintain a site count of interruption starting at 1st April and ending on 31st March for each formula year. The count will be reset to zero on the 1 April of each year and will not be reset within a formula year should a change of registered User occur.

The registered User will be eligible for an interruption payment where the site count is greater than 15 days, and this will result in payment by Transco to the registered User for each site on each of the individual gas days for which interruption occurred.

Shared Supply Meter Point (SSMP) Arrangements

AEP argued that the proposed default apportionment at partial interruptible SSMPs should be amended to be consistent with NTS CSEP arrangements in the use of gas nominations and that ideally measurement should be based on prevailing rather than day ahead (D-1) nominations. AEP also questioned whether payments at an SSMP will be available to Users that are not intending to flow gas on the relevant day. Finally AEP argued that use of an allocation agent or Connected System Operator would be preferable to advise how payments should be apportioned rather than using a default mechanism. SSE observed that a review of how capacity is managed at SSMPs might be justified if the Proposal is implemented such that commercial considerations are attached to interruptible capacity at these sites.

Transco Response
Transco agrees with AEP that there is merit in adopting a consistent approach between Shared Supply Meter Points and NTS CSEPs. Finding an appropriate definition of 'prevailing' is potentially more problematic and could be open to a degree of gaming. In addition Transco is of the view that making use of a prevailing nomination could offer less clarity than is gained from utilising a day ahead nomination.

Payments at a Shared Supply Meter Point will be allocated to relevant Users in proportion to their respective nominations at the day-ahead stage. If a User was not intending to flow and therefore had submitted a nomination for zero quantity then it would not be allocated any proportion of the payment due in respect of that site.

Transco has sought to deliver a pragmatic solution to the transitional exit capacity incentive that is not unduly complex whilst continuing to meet the new GT licence requirements. This approach has been taken in the expectation that new arrangements could be in place from April 2004 and therefore above fifteen day payments are only likely to be relevant to two winter periods. For this reason a default mechanism has been used for apportioning payments at Shared Supply Meter Points rather than more complex approaches that could involve using intermediaries such as Allocation Agents or Connected System Operators. In the latter case Transco considers that additional reporting requirements would need to be developed for what should in reality be a comparatively infrequent event. Similarly, whilst agreeing with SSE that changing commercial circumstances could make it desirable to review the arrangements at Shared Supply Meter Points, Transco believes that the limited life that is expected of the transitional incentive suggests that it would be more productive for the industry to focus on developing the succeeding arrangements that will take effect from April 2004.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not required to enable Transco to comply with any legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

This proposal is required to enable implementation of the Pricing Methodology (PC74) that has recently been established to determine the size of credits that may be offered for interruption at a site in excess of 15 days frequency in a formula year.

14. Programme of works required as a consequence of implementing the ModificationProposal

Finalise system design requirements,
Evaluate systems changes,
Design and build systems,
Test new system
Introduce to 'live' environment.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Draft Modification Report circulated - 14 August
Consultation period ends - 5 September
Modification Report issued - 26 September
Ofgem decision expected - Late September
Network Code implementation - 1 October
Systems implementation - Early December
Effective date for count of interruption frequency - 1 April 2002

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

[Draft] proposed legal text

SECTION G: SUPPLY POINTS

Add new paragraph 6.1.9 to read as follows:

"6.1.9 In respect of an Interruptible Supply Point the Registered User (or Sharing Registered Users) shall:

(a) not be [required] to pay NTS Exit Capacity Charges and LDZ Capacity Charges;

(b) be entitled to a payment, where in respect of an Interruptible Supply Point Transco requires Interruption on more than 15 Days in any Formula Year, calculated in the manner provided in the Transportation Statement."

Amend paragraph 6.5.3 to read as follows:

"….will specify the number of Days (exceeding 45) on which Transco….in accordance with paragraph 6.7."

Delete text at paragraph 6.5.4 and insert 'Not Used'.

Delete text at paragraph 6.7.14 and insert 'Not Used'

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0555**, version **1.0** dated **26/09/2002**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or

   (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order <u>(whether such approval is actual or deemed by effluxion of time)</u> any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, <u>had it not been repealed, would</u> apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) <u>or 2(2)(b)(ii)</u> of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.